

***Application of
Dowd Water Systems, Inc.
For Increase of Rates and
Charges For Water Service***

Docket No. 2001-75-W

August 1 , 2001

***Testimony of
Steve W. Gunter
Audit Department***

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

1 Q. PLEASE STATE FOR THE RECORD YOUR NAME, BUSINESS ADDRESS
2 AND POSITION WITH THE PUBLIC SERVICE COMMISSION OF SOUTH
3 CAROLINA.

4 A. My name is Steve W. Gunter. My business address is 101
5 Executive Center Drive, Columbia, South Carolina. I'm
6 employed by the Public Service Commission of South
7 Carolina as an Auditor.

8 Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND YOUR
9 EXPERIENCE.

10 A. I received a B.A. Degree in Interdisciplinary Studies
11 with a major in Accounting from the University of South
12 Carolina in 1980. I am a Certified Public Accountant,
13 certified in the State of South Carolina. I have 19
14 years of experience in the auditing profession. Eighteen
15 of those years have involved the ratemaking process.

16 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING DOWD
17 WATER SYSTEM, INC.?

18 A. The purpose of my testimony is to set forth in summary
19 form Staff's findings and recommendations resulting from
20 our examination concerning the above docket. These
21 findings and recommendations are set forth in the report
22 of the Audit Department with attached exhibits. The Dowd
23 Water System consist of three subdivisions which are
24 Stephenson's Lake, Emerald Shores, and Isle of Pines. Of

1 the three subdivisions, Stephenson's Lake is the only
2 one that has approved rates and is therefore the only
3 subdivision included in the above docket. The other two
4 subdivisions have filed establishment cases and are
5 included under a separate docket.

6 Q. I SHOW YOU THIS REPORT WITH ITS ATTACHED EXHIBITS,
7 ENTITLED "REPORT OF THE AUDIT DEPARTMENT, THE PUBLIC
8 SERVICE COMMISSION OF SOUTH CAROLINA, DOCKET NO. 2001-
9 75-W, DOWD WATER SYSTEM, INC." WAS THIS REPORT PREPARED
10 BY YOU OR UNDER YOUR DIRECT SUPERVISION?

11 A. Yes, it was. With the exception of that portion which is
12 tabbed Utilities Department, I supervised and directed
13 the preparation of the report by the Audit Department
14 Staff.

15 Q. PLEASE SUMMARIZE THE CONTENTS OF THIS REPORT.

16 A. As outlined in the report's index, pages 1 and 2 contain
17 the Staff's analysis of the report, with the remaining
18 pages 3 through 6 containing the Audit Staff's
19 supporting exhibits. The major part of my testimony will
20 refer to Audit Exhibit A. This Exhibit is entitled
21 "Operating Experience and Operating Margin." Audit
22 Exhibit A, as does the other Audit Staff's exhibit,
23 utilizes a test year ending December 31, 2000. The other
24 Staff exhibit, Exhibit A-1, entitled "Explanation of

1 Accounting and Pro Forma Adjustments", gives the details
2 of Staff's adjustments and compares them to the
3 Company's adjustments.

4 Q. DO YOU HAVE ANY FURTHER EXPLANATION OF EXHIBIT A?

5 A. Yes, the Audit Staff has prepared this exhibit in
6 compliance with the Commission's standard procedures as
7 to calculating income and operating margin for water and
8 wastewater companies. A brief description of Exhibit A
9 is as follows:

10 Column(1): Represents the Company's per book
11 operations for the test year ended December 31, 2000 as
12 filed for the requested increase. These numbers were
13 verified by the Staff as part of our review of the
14 books and records.

15 Column(2): The Staff's Accounting and Pro Forma
16 Adjustments are detailed in this column. These
17 adjustments were made by the Audit Staff in order to
18 normalize the Company's per book operations and are
19 detailed separately in Staff's Exhibit A-1.

20 Column(3): The Staff's computation of the Company's
21 normalized test year prior to giving effect of the
22 proposed increase is detailed in this column of Exhibit
23 A.

24 Column(4): The Staff's adjustments for the proposed
25 increase as furnished by the Utilities Department and

1 all related tax and expense adjustments that are
2 associated with the proposed increase are detailed in
3 this column.

4 Column(5): The Staff's computation of the Company's
5 normalized test year after giving effect for the
6 accounting and pro forma adjustments and for the effect
7 of the proposed increase and its associated tax and
8 expense adjustments are detailed in this column.

9
10 Q. WOULD YOU PLEASE ELABORATE ON THE CALCULATIONS IN EXHIBIT

11 A?

12 A. As shown in column(1), per book operations were used by
13 Staff to compute a negative "Net Income For Return" of
14 (\$570). This was based on Operating Revenue of \$4,500
15 less Operating Expenses of \$5,070. The Staff computed an
16 operating margin of (12.67)%.

17 In Column(2), the Staff's Accounting and Pro Forma
18 adjustments are presented. These adjustments are shown
19 in more detail in Staff's Exhibit A-1 of this report.

20 Column(3) presents per book operations as adjusted
21 by the Staff. After such adjustments, the Staff computed
22 a negative "Net Income For Return" of (\$6,139). This was
23 the result of Operating Revenues of \$4,500 less
24 Operating Expenses of \$10,639. By using the "Net Income

1 For Return" as adjusted, the Staff computed a negative
2 operating margin of (136.42)%.

3 Column(4) presents the Staff's adjustments for the
4 proposed increase, as furnished by the utilities
5 Department. These adjustments are also detailed in
6 Exhibit A-1 of the report.

7 Column(5) presents per book operations as adjusted to
8 normalize the test year and after the proposed increase
9 is added to revenue. As a result "Net Income For Return"
10 of \$3,666 was computed by the Staff. Such income was
11 based on Operating Revenue of \$15,300 less Operating
12 Expenses of \$11,634. By using the resulting "Net Income
13 For Return" of \$3,666 the Staff computed an operating
14 margin of 23.96%.

15 Q. WOULD YOU PLEASE EXPLAIN STAFF'S PROPOSED ADJUSTMENTS AS
16 SHOWN ON AUDIT EXHIBIT A-1?

17 A. The Audit Staff proposed four accounting and proforma
18 adjustments and one adjustment for the proposed
19 increase. In adjustment No.1 both the Staff and Company
20 propose to adjust testing fees for the effect of
21 switching the responsibility of testing to an outside
22 contractor, effective April 1, 2001. Staff's adjustment
23 allocated this cost to Stephenson's Lake Subdivision
24 based on the number of customers while the Company
25 allocated the cost evenly between the Stephenson's Lake

1 and Emerald Shores Subdivisions, the two subdivisions
2 covered under the contract. Staff is of the opinion
3 that an allocation based on number of customers is more
4 representative of the actual cost to be incurred by
5 each subdivision. The total annual contract amount was
6 \$13,236 of which 60.98% was allocated to Stephenson's
7 Lake and 39.02% to Emerald Shores based on 25 customers
8 in the Stephenson's Lake Subdivision and 16 customers
9 in the Emerald Shores Subdivision. Staff then
10 eliminated the per book amounts for testing fees in the
11 amount of \$500, chemical expense amounting to \$186 and
12 operator fees in the amount of \$1,800. In adjustment
13 No. 2, the Company proposes to eliminate the cost of
14 repairing a door as being an extraordinary and
15 nonrecurring cost. Staff considers this cost to be of a
16 ordinary and necessary nature, and therefore, no
17 adjustment was made by Staff to eliminate. In
18 adjustment No. 3, Staff and Company propose to
19 amortize actual rate case expenses over a three year
20 period and to allocate one-third to Stephenson's Lake
21 subdivision and one-third each to the Emerald Shores
22 and Isle of Pines subdivisions, which have
23 establishment cases pending before this commission.
24 Staff allocated the cost evenly based on the assumption
25 that the time and expense to prepare each case would be
26 approximately the same. In adjustment No. 4, Staff and

1 Company propose to true-up the gross receipts tax.
2 Staff's and Company's adjustments differ due to the use
3 of a more up-to-date factor being used by the Staff.
4 Adjustment No. 5 is Staff's and Company's proposed
5 increase and associated expense adjustment. Staff and
6 Company agree on the amount of the revenue increase but
7 differ on taxes due to the use of a more up-to-date
8 factor for gross receipts taxes by staff of 1.121%
9 while the Company used a factor of 0.51%.

10 Q. WOULD YOU PLEASE EXPLAIN WHY STAFF DID NOT COMPUTE
11 CUSTOMER GROWTH?

12 Beginning and ending customers both totaled 25. Because
13 there was no growth in the number of customers Staff
14 chose not to include a customer growth exhibit in the
15 report.

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes, it does.

PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

UTILITIES DEPARTMENT

NOTICE OF HEARING

DOCKET NO. 2001-75-W

DOWD WATER SYSTEM, INC. has submitted an Application requesting approval of an increase in its rates for water service in Stephenson's Lake Subdivision, Lexington County, SC.

PLEASE TAKE NOTICE that this matter is scheduled for a **HEARING** on Wednesday, August 1, 2001 at 10:30 a.m. at the offices of the Public Service Commission of South Carolina, Synergy Business Park, 101 Executive Center Drive - Saluda Building, Columbia, SC 29210.

Persons seeking information about the Commission's procedures should contact the Commission's offices by dialing (803) 896-5155.

Gary E. Walsh
Executive Director
Public Service Commission of S.C.
P.O. Drawer 11649
Columbia, South Carolina

06/21/01

*HE#1- ESTIMATES OF DISCONNECT/RECONNECT - \$90 EACH
2- PF EXHS OF MARLEADY
3- PF EXHS OF GUNTER
4- PF EXHS OF CREECH*

END @ 12:00

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